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SUBJECT: IMF GIVES FIJI INTERIM GOVERNMENT MIXED MARKS FOR  
ITS HANDLING OF THE ECONOMY

11. (SBU) Summary. A visiting IMF Article IV mission said Fiji's Reserve Bank and interim government (IG) have done a fairly good job over the last 12 months managing a very troubled economy, although it noted that many of the troubles were brought on by 2006 coup that brought the IG to power. Fiji has avoided a possible balance of payments crisis by relentlessly suppressing imports and capital spending. As a result, Fiji's budget is nearly in balance for 2007 and its reserves have increased slightly from 2006 levels. The IMF team said these actions were akin to emergency room procedures. They can stop the bleeding in the short term, but the economy can't remain "in a cast" if it is to have any hope of recovery. The IMF estimates that Fiji's economy will decline by 4.2% in 2007 and grow by less than 2% in 2008, a slightly more pessimistic picture than that predicted by the Fiji Reserve Bank. Growth in 2008 is dependent, the IMF team said, on a strong rebound in tourism earnings. and an increase in investment and capital expenditure. Assistance from China might help a little, but the team leader warned that assistance "will take longer to put into place than people think, will start later than people think, and will not help Fiji's balance of payments or reserve position." The IMF team acknowledged that an economic recovery in Fiji is unlikely unless progress is made in the political front, which they understand to mean progress toward elections. End summary.

12. (SBU) An IMF team led by Jeremy Carter, Advisor, Asia Pacific Department, visited Fiji November 29-December 11 on an Article IV mission. Carter briefed diplomats on the tentative findings of the mission December 11. Carter said an IMF Board Meeting on Fiji is expected in February and that he hoped the Article IV staff report would be published in conjunction with that meeting.

IMF Findings - Things Could Be a Lot Worse....

13. (SBU) Carter said Fiji's Reserve Bank and the Interim Government's (IG) Ministry of Finance had "done a good job" over the last 12 months in averting a balance of payments crisis and a domestic financial crisis. The methods used were fairly draconian and weren't necessarily the ones the IMF would have chosen, but they worked. The IG took strong measures to discourage imports and limit capital spending and cut civil service wages. From a development point of view, he said, these actions are a problem, but from a financial point of view they helped keep Fiji solvent. Reserves, which dropped to dangerously low levels in the months after the coup, are now slightly higher than pre-cop levels. Through

reduced spending, the IG was able to virtually balance its budget in 2007.

#### But Prospects for the Future Are Not Bright

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¶4. (SBU) Carter said the actions taken by the IG in 2007 were like "emergency room measures in a hospital." Putting a cast on a leg may be necessary for the short term, but it cannot remain in place indefinitely. Similarly, the economy cannot remain in the "cast" the IG has constructed if growth is to return. Given fiscal austerity, minimal inflows of investment and a slump in tourism, the economy fell by an estimated 4.2% in 2007, said Carter. This figure is slightly more pessimistic than the Reserve Bank's estimate of a 3.9% drop in GDP. The Reserve Bank predicts economic growth of 2.2% in 2008. While that figure is "in the range of possibility," Carter said he was concerned that some of the assumptions underlying the Bank's forecast cannot be met.

¶5. (SBU) Given minuscule IG capital spending of FJ\$120 million in 2007, said Carter, the 2008 budget estimate of FJ\$270 million for 2008 seems unrealistic. Since there are few prospects for significant new overseas aid or investment in 2008 and the IG has little access to overseas borrowing, there simply does not seem to be funds available to invest in capital spending projects. Other factors dampening growth include the civil service wage cuts of 2007 and a continuing slump in tourism. The wage declines, said Carter, were not limited to the highly publicized cut of 5% in salaries (1% of which was restored later). Promised cost of living increases and bonuses were also cut. The IMF estimates that the total drop in civil service wages in 2007 was about 9%. This drop in income has, of course, large implications for domestic consumption in 2008.

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#### Tourism's Role

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¶6. (SBU) The return to growth predicted by the Reserve Bank is primarily predicated on a tourism rebound, said Carter. (Note: Reserve Bank officials have told us they are assuming a 10% increase in tourism revenues in 2008.) Carter said that rebound may or may not take place. The additional bed tax announced in the 2008 budget will hurt, and hotel operators may decide they cannot indefinitely keep in place the cut-rate deals they have used to attract business since the coup. As long as Fiji's political situation is unstable and its relations with its neighbors remained strained, said Carter, travel advisories will remain in place, further dampening demand.

#### Will Chinese Money Help?

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¶7. (SBU) Carter expressed considerable skepticism about the role of Chinese money in helping Fiji out of its economic doldrums. While FJ\$242 million in projects have been promised and those funds are welcome, Carter said Chinese-funded projects "will take longer to put into place than people think, will start later than people think, and will not help Fiji's balance of payments or reserve position."

#### The Political Situation Holds the Key

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¶8. (SBU) Carter said Fiji's economy remains deeply troubled with many long-term structural problems that need to be addressed. The international community needs to help. However, it is clear that the level of assistance needed will not be forthcoming until Fiji lays out a road map for resolution of its political problems. The IMF is not in a position to advise Fiji on how to do that, but recognizes that political progress, essentially movement toward elections, is the fundamental prerequisite to getting the economy back on track.

19. (SBU) Comment: Carter told us that virtually all of the IMF's interlocutors in Fiji also recognize that economic recovery depends on movement in the political front. Whether the IG's military leaders fully understand that basic fact, however, remains an open question.

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